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Sales territories in Japan

Washington

1926

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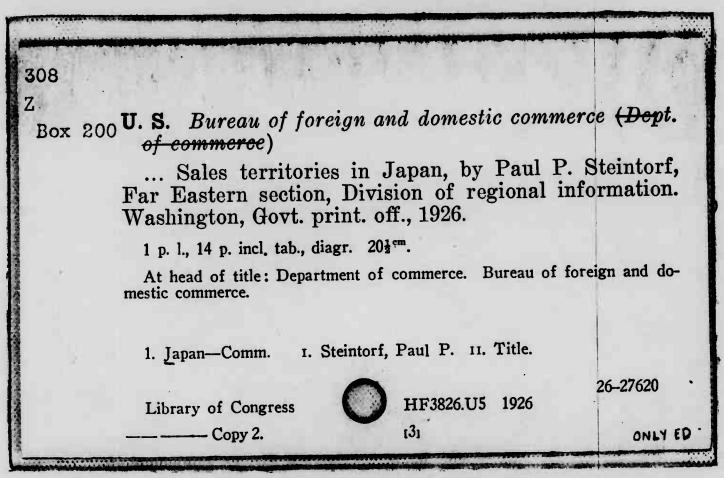

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DEPARTMENT OF COMMERCE
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SALES TERRITORIES IN JAPAN

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FAR EASTERN SECTION
DIVISION OF REGIONAL INFORMATION

WASHINGTON
GOVERNMENT PRINTING OFFICE
1926

SALES TERRITORIES IN JAPAN

Japan, because of its limited area and high state of commercial development, is generally considered as a single unit in the placing of agencies. There are, however, instances when it would be of advantage to divide the territory into at least two sales districts and, in any case, a thorough understanding of the trade possibilities of the various industrial and commercial centers is of importance in selecting a sales representative for the country.

Organization and Nature of Japanese Business.

The foreign trade of Japan has been highly developed and is concentrated in the hands of a comparatively small number of large trading companies. These companies have built up elaborate organizations with branches throughout Japan and with offices in all of the more important commercial centers of the world. The dominance of such companies is a result of the peculiar conditions governing business in Japan. The greater part of retail distribution is conducted on an extremely small scale. In every Japanese city there are literally thousands of tiny shops, each of which handles a single specialized line or product. These small merchants have very limited credit facilities, no knowledge of any language except Japanese, and are totally unacquainted with the elaborate technique of foreign trade. Furthermore, a very considerable part of the industrial production of Japan is the result of small family undertakings which are similarly unequipped for foreign trade. Even the larger factories

which have sufficient resources to undertake foreign sales and purchases find it more profitable to turn over their foreign business to the specialized trading companies than to build up the elaborate and expensive organization necessary for foreign trade.

Importance of the Great Family Groups.

The large trading companies are generally subsidiary organizations of the great family groups which dominate present-day Japan. The functions and organization of these are outlined in the following excerpts from a report by Consul J. W. Ballantine, Tokyo:

"The family group, which took such a prominent place in the early development of Japan, is still a dominant factor in Japanese economic life. Its business may be described as a gigantic vertical trust, covering nearly every field of economic activity. Generally control of the enterprises of such a family group is voted in a holding company for a specific purpose. The direction of the activities of one of the largest of these groups, for example, is centered in an ordinary partnership capitalized at 200,000,000 yen (approximately $100,000,000). This company controls 21 other organizations with an aggregate paid-up capital of 475,245,000 yen (approximately $237,000,000), whose activities include banking, real estate, trust business, warehousing, mining, manufacturing, and transportation.

"There are about 15 of these great family organizations of which the Mitsui, Iwasaki, Sumitomo, Yasuda, Matsukata, Okura, Suzuki, Asano, and Kuhara interests are the most important. These nine families control and operate 144 companies with an aggregate paid-up capital of about 2,360,000,000 yen (approximately $1,180,000,000). In addition they are interested in a number of other undertakings that are not listed in available returns; in fact, it has been estimated that

the family groups control not less than 30 per cent of the total business capital of Japan.

"The trading companies controlled by these financial groups supply local manufacturers with raw materials, finance them during the process of production, and assemble, grade, and pack the products of a large number of households. In the case of imports they are able to quote laid-down prices on all varieties of foreign goods, and often carry large stocks of imported goods ready for immediate delivery. They also grant credit terms and have service organizations for the supply of spare parts, repairs, etc."

Foreign Trading Companies.

In addition there are a number of large American and other foreign trading companies which maintain organizations similar in size and scope. These companies have been established in Japan for many years and have built up organizations that are conversant with every aspect of Japanese business. They formerly handled every kind of product and engaged in both export and import business. During recent years, however, there has been a tendency to concentrate more and more on specialized import lines, such as machinery, machine tools, electrical equipment, hardware, office specialties, and iron and steel products. For commodities of this sort they are excellent agents.

Small Trading Companies.

Other sales agencies are the smaller Japanese trading companies which usually specialize in one or more technical lines, the commission merchants, and the individual manufacturer's agents. The small Japanese companies are at some disadvantage in competing with the great family groups, but nevertheless they secure a considerable amount of business. They are particularly

valuable to the American firm which may, for one reason or another, fail to place its line with one of the larger companies, since it might otherwise have difficulty in entering the market. The small companies (which are often well and favorably known as specialists in certain lines) are frequently able to give to an agency the intensive personal attention that is difficult to secure from the great trading company with its manifold interests.

The individual manufacturer's agent is becoming more and more important in the import business of Japan. Generally he handles only a limited number of allied products and covers the market very thoroughly. For such products as hardware, tools, and sundries, he makes an excellent medium of sale. The difficulty with this sort of agent is that he is constantly tempted to take on more lines than he can handle and thereby destroys his usefulness as the manufacturer's personal representative.

Difficulty of Securing Agents.

The concentration of Japanese business presents a very real difficulty to the American firm placing an agency in that country. In many lines the number of potential dealers is extremely limited, and it often happens that all suitable agents are already tied up. Furthermore, there is a tendency among many of these companies to take on too many lines. Some of the smaller concerns will gladly take on any line that does not require a guaranty of minimum sales. In certain lines there are not enough firms in the field to care for and develop the business properly.

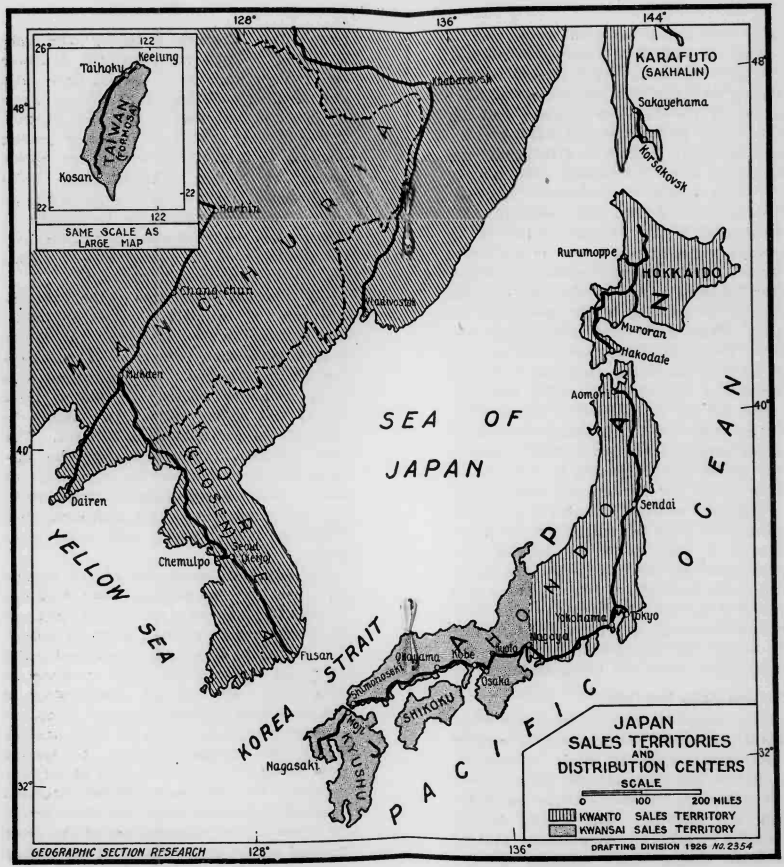
Advantages and Disadvantages of Japanese and Foreign Agents.

One of the first problems that must be solved is whether the agency is to be given to a Japanese or to an American or other

foreign firm. From the foregoing paragraphs it should be apparent that both Japanese and foreign firms have the requisite sales and handling facilities, but that there is one fundamental difference in their organization. This difference is that the Japanese trading company is primarily a buying and selling agency for its own industrial group, while the foreign company's sole function is foreign trade. In order to assist in the solution of this problem the outstanding advantages and disadvantages of the two classes of agents are briefly summarized below:

The principal advantages of the Japanese firm are (*a*) intimate relations to industrial concerns in its own group; (*b*) ability to grant long-term credits to small consumers through its own bank; (*c*) connections with small producers whereby it acts as their buying and selling agent; (*d*) ability to carry stocks for immediate delivery. The main objection advanced against the Japanese firm is its tendency to concentrate on sales to concerns within its own group, or to give such companies a price advantage, thus prejudicing the product with other consumers.

The principal advantages of the foreign firms are (*a*) independent sales facilities whereby they can cover the market fully and not limit sales to a single financial group; (*b*) a highly developed, specialized sales force; (*c*) concentration of all resources on sales alone. The greatest disadvantage is that since each Japanese financial group has a tendency to place orders for lines handled by its own trading company, the foreign agent is not always in a position to get that business. The seriousness of this situation is largely dependent upon the character of the product. For example, one of the great financial groups controls most of the mining companies in Japan, and an American manufacturer of mining machinery who placed his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Keelung
TAIWAN (FORMOSA)
Kosan
SAME SCALE AS LARGE MAP
Khabarovsk
Harbin
Changchun
Mukden
MANCHOURIA
KOREA
Dairen
Chemulpo
Seoul (Keijo)
Fusan
YELLOW SEA
KOREA STRAIT
SEA OF JAPAN
KARAFUTO (SAKHALIN)
Sakayehama
Korsakovsk
Rurumoppe
HOKKAIDO
Muroran
Hakodate
Aomori
Sendai
HONSHU
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agency with this group would be assured of reaching the bulk of the consumers; whereas if he gave the agency to a foreign trading company he might find that competing lines handled by the Japanese company had the inside track. In the case of a highly specialized competitive product in general use, the advantages of an independent sales connection would largely counterbalance any disadvantage arising from this tendency.

In general, it may be observed that if the American exporter can secure as his representative one of the larger trading companies, either Japanese or foreign, he need have no hesitancy in granting it the agency for all Japan. This, however, is not always possible. These companies are often already tied up with competing lines, and it is then necessary to seek other channels. The only alternatives are to establish a branch office or to select an agent from among the smaller trading companies or manufacturers' agents. Since the former alternative is rarely practicable except for products for which there is a large and constant demand, it is usually necessary to enter the market by the latter method. In some cases the smaller companies make suitable agents for the entire country, but generally it will be found that division of the country into two or more sales districts will secure a larger distribution and will assure the manufacturer that no important sales areas are being neglected.

Principal Sales Districts.

Japan proper is divided into two great natural geographic districts with a number of subsidiary areas of minor importance. The first is the great alluvial plain, known as the "Kwanto," in which Tokyo and Yokohama are situated. The second is the "Kwansai" plain in the southern part of the main island, which contains the important cities of Kobe, Osaka, and Kyoto.

These two districts are the only ones in which direct foreign trade is of much importance. The smaller cities are accustomed to making their purchases of imported goods through the trading companies located in one of the principal cities enumerated above, either direct or through local branch offices. It is rarely necessary to appoint individual agents in these cities, although it is essential to know that the prospective agent covers them either by branch offices or by traveling salesmen.

An allocation of territory usually follows the natural geographic division, an agent in Tokyo being selected for the "Kwanto" and one in either Kobe or Osaka for the "Kwansai" district. An equitable distribution would be to grant to the Tokyo agent all territory lying to the east of a line drawn through Nagoya (including the city of Nagoya and immediate surrounding territory). This would give the Tokyo or "Kwanto" agent all of the northern part of the main island and the northern island of Hokkaido. The "Kwansai" agent would be given the remainder of Japan proper, which includes the southern portion of the main island and the islands of Shikoku and Kyushu. This division, however, is of necessity somewhat arbitrary, since the allocation of territory must hinge on the relative importance of the two agents chosen and on their ability to cover the territory adequately.

The Kwanto District.

Tokyo is easily the outstanding city in Japan from the viewpoint of the American exporter. It is the capital, and all purchases for the Government departments—an important feature of Japanese trade—are made there. Furthermore, it is the financial center of the country. Nearly all of the great trading firms have their head offices in Tokyo and every buying and selling agency in the

country is represented. To a very large extent it is the trade center of the entire country.

Yokohama serves as the port for Tokyo, which is only 20 miles distant. It is also the center of the silk-export trade and an important collection and distribution point for the "Kwanto." Prior to the earthquake many of the foreign trading companies had their head offices in Yokohama, but now most of them have moved to Tokyo. Commercially it is a part of the Tokyo district.

Nagoya is a prominent industrial and commercial city about 235 miles southwest of Tokyo, but it is relatively a minor import market since most of its purchases are made through the trading companies in one of the cities previously mentioned.

Hakodate and *Muroran* are the leading ports of the island of Hokkaido. Their direct imports from the United States are negligible, but they are destined to be increasingly important as the natural resources of Hokkaido are developed.

The Kwansai District.

Osaka is the chief industrial center in Japan and is the largest city in the "Kwansai" district. As a market for machinery and industrial products it excels all other Japanese cities. It is, however, secondary to Tokyo as an import center.

Kobe is the leading import port of Japan and serves as the point of entry for Osaka, some 20 miles distant. It is also important as an export center of cotton goods and other Osaka goods destined for China and other oriental markets.

Kyoto, the ancient capital of Japan and center of artistic and cultural life, is of secondary importance to the importer. It is not a commercial city, but nevertheless consumes a very considerable quantity of imported goods and must be considered in the allocation of sales territory.

Moji and *Shimonoseki* are twin cities situated on the opposite sides of the Shimonoseki Straits, which separate the island of Kyushu from the main island of Hondo. These two cities are important collection and distribution centers, but engage in very little direct import trade with the United States.

Nagasaki, at one time the leading port of Japan, is now relatively insignificant, although it still serves as the port and commercial center for a considerable part of the island of Kyushu.

Agents for Japan's Colonies.

Japan's colonial possessions, namely, Taiwan (Formosa) and Chosen (Korea), need not be considered separately, provided the American manufacturer secures as an agent one of the large general trading companies with headquarters in Japan proper. However, if he decides to give the agency for Japan proper to one or more smaller companies he will then have to appoint individual agents for each of these territories.

Taiwan, commercially, is to a very great extent subsidiary to Japan proper, and it is quite often possible to allocate the territory to the Tokyo representative, provided, of course, that he has some direct sales representation on the island, though this does not necessarily mean a branch office. In the cases where it is found necessary to treat the island as a separate sales district the manufacturer must choose from a rather restricted list of small Japanese and Chinese trading companies. The only cities that he need consider are Keelung, the principal port, and Taihoku, the largest city and seat of government.

Chosen has a somewhat greater commercial importance and it is essential to see that the agent who is given the Japanese Empire as a sales territory is adequately represented there. In the case of separate treatment an

agent must be selected from the Japanese and foreign trading firms, of which there are quite a number. It is difficult to lay down any definite rules, since the kind of agent selected will depend entirely on the product to be sold. In any case, it will not be necessary to split the colony into sales districts. The principal commercial centers are Fusan—the port of entry from Japan, which handles about two-thirds of the foreign trade of Chosen—and Keijo, or Seoul, the capital and largest city. Other cities are Jinsen (Chemulpo), the sea gate to Keijo, and Heijo (Pingyang), where the Pingyang collieries are located.

Agents for Kwantung Leased Territory.

Japan's leased territory in Manchuria, consisting of the Kwantung Peninsula and the zone along the line of the South Manchuria Railway from Dairen and Antung to Mukden and thence north to Changchun, is commercially under the direction of Japanese interests and should therefore be taken into consideration in the allocation of Japanese sales districts. Dairen is the gateway to the three eastern Provinces of China which constitute Manchuria, a rich and productive area destined to become of great commercial importance. All the great Japanese trading companies maintain branches in both Dairen and Mukden; some of them have subsidiary branches in Changchun and Antung. Dairen, from the viewpoint of the American exporter, is almost as much a Japanese city as Tokyo, and if the American manufacturer or exporter's agent is one of the large Japanese trading companies, it is as well equipped to look after his interests in the one city as in the other. A good many of the foreign companies established in Japan also have branches in Dairen and Mukden to foster their interests there.

There are, however, American firms and others located in north and south Manchuria which have relations with each other but no head or auxiliary houses in Japan. On account of their direct contacts with the Chinese population, which is overwhelmingly predominant, it may be advisable, in some lines especially, that agencies be placed with foreign companies functioning independently in Manchuria, or in connection with their organizations in China, rather than with organizations direct from Japan. These (non-Japanese) companies operating independently in Manchuria, or in conjunction with other large organizations throughout China, very frequently have a network of subsidiary agencies scattered throughout the country; and because of these numerous and direct contacts with the Chinese population they are often able to give the foreign manufacturer or exporter a wider distribution. Foreign as well as Japanese commercial companies operating in Manchuria enjoy the extraterritorial status assured to foreign firms by treaty in other parts of China and are therefore always under the supervision of the official representatives of the nationalities to which they belong. This is frequently a matter of importance in the event of controversy.

Conclusion.

In general, it is believed that where the facilities of one of the great Japanese or foreign trading companies can be obtained, the simplest and most productive course is to allocate the agency for the entire Japanese Empire with it, and when it is not possible to operate through one of the large companies, it is probable that a division of the territory into four or five districts (i. e., Kwansai and Kwanto in Japan proper, Taiwan, Chosen, and Kwantung leased territory) will secure the best distribution.

Table of Distances.

Distances in miles from Tokyo to the leading colonial cities are as follows: Fusan (Chosen), 828; Seoul (Chosen), 1,108; Dairen (Manchuria), 1,132; Taihoku (Taiwan), 1,386.

Distances (also in miles) between the leading commercial cities of Japan proper are shown in the table below:

Cities	Tokyo	Yokohama	Nagoya	Kyoto	Osaka	Kobe	Shimonoseki	Moji	Nagasaki
Tokyo		18	235	329	356	376	706	716	881
Yokohama	18		216	311	338	358	687	697	863
Nagoya	235	216		95	121	142	471	481	647
Kyoto	329	311	95		27	47	376	386	552
Osaka	356	338	121	27		20	350	360	525
Kobe	376	358	142	47	20		329	339	505
Shimonoseki	706	687	471	376	350	329		10	176
Moji	716	697	481	386	360	339	10		166
Nagasaki	881	863	647	552	525	505	176	166	
Hakodate	557	575	791	886	913	933	1,203	1,273	1,438

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